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SUBJECT: JORDAN - INVESTMENT CLIMATE STATEMENT, 2006

REF: 05 STATE 201904

1. In response to reftel request, post submits the Investment Climate Statement for 2006 for Jordan. As requested, post will also send a copy of the ICS via email to EB/IFD/OIA.

BEGIN TEXT OF INVESTMENT CLIMATE STATEMENT, JORDAN:

Jordan

2006 Investment Climate Statement - Jordan

Openness to Foreign Investment

Since King Abdullah II succeeded to the throne in 1999, Jordan has taken steps to encourage foreign investment and realize the vision of transforming Jordan into an outward-oriented, market-based economy competitive in the global marketplace. Key reforms have been undertaken in the information technology, pharmaceuticals, tourism, and services sectors. Foreign and domestic investment laws grant specific incentives to industry, agriculture, hotels, hospitals, maritime and rail transportation. Leisure and recreation projects, convention and exhibition centers, transportation and distribution of water, gas, and oil/oil derivatives using pipelines were added to this list. The laws also allow the cabinet flexibility in offering investment incentives to other sectors.

Jordan acceded to the World Trade Organization (WTO) in April 2000. In addition, a U.S.-Jordan Free Trade Agreement (FTA) entered into force on December 17, 2001. In May 2001, the government converted the Aqaba port and surrounding area into a special economic zone (SEZ) offering special incentives to investors (see below). The government is revamping the investment promotion system in Jordan. It is re-examining investment incentives, with the consolidation of all investment promotion activities under a renewed Jordan Investment Board (JIB), while investment development would fall under a "Jordanian Agency for Economic Development (JAED)" that was just getting off the ground at the end of 2005. These developments will likely lead to expanded investment opportunities in Jordan for U.S. investors.

Jordan's investment laws treat foreign and local investors equally, with the following exceptions (as per regulation No. 54 of 2000, entitled "Non Jordanian Investments Promotion Regulation"):

-- Under the terms of the U.S.-Jordan FTA, ownership of periodical publications is restricted to Jordanian natural persons or Jordanian juridical entities wholly owned by Jordanians.

-- Under the same agreement, foreign investors are limited to 60 percent ownership in printing/publishing and in aircraft or vessel maintenance and repair services.

-- Also under the FTA, foreign investors are limited to 50 percent ownership in the following businesses and services:

Architectural services
Engineering Services
Urban planning and landscape architectural services
Leasing or rental services relating to other machinery and
equipment(excluding engines and turbines)
Advertising Services
Geo-technical testing
Placement and supply services of personnel
Related scientific and technical consulting services
(part of CPC
8675), excluding prospecting, surveying,
exploration,
Exploitation and map making.

Motion picture and video- tape production and distribution services
 Motion pictures projection services
 Sound recording
 General Construction Work for Buildings
 General Construction Work for Civil Engineering
 Installation and Assembly work
 Building Completion and Finishing Work
 excluding site preparation work for mining
 Wholesale Trade (Except wholesale trade of firearms or pharmaceuticals)
 Retailing Services (Except retail trade of pharmaceuticals)
 Franchising
 Refuse Disposal Services: Collection and treatment of solid waste services (part of CPC 9402) excluding collection and treatment of hazardous waste.
 Agency services
 Hotel and Motel Lodging services, excluding casinos
 Meal serving services with full restaurant services
 Meal serving services in Self-serving facilities (cafeterias)
 Beverage serving services for consumption on the premises,
 excluding casinos
 Air catering services
 Travel agencies and tour operators
 Passenger transportation
 Freight transportation
 Rental services of sea-going vessels with operator
 Storage and warehousing services
 Shipping agents
 Maritime freight forwarding services
 Food supply catering
 Rental of vessels with crew
 Maintenance and repair of vessels
 Pushing and towing services
 Computer reservations systems
 Freight forwarding services
 Packing, crating and de-packing
 Freight inspection services, excluding pre-shipment inspection for
 customs valuation purposes on imports

The FTA Annex 3.1 has a complete listing of limitations on investments and may be found at the following internet address:
[http://www.ustr.gov/Trade_Agreements/Bilatera l/Jordan/Section_Index.html](http://www.ustr.gov/Trade_Agreements/Bilatera%20l/Jordan/Section_Index.html)

Foreign investors may not have whole or partial ownership of:

- Investigation and security services;
- Sports clubs (except for health clubs);
- Stone quarrying for construction purposes;
- Customs clearance services; and,
- Land transportation of passengers and cargo using trucks, buses and taxis.

A minimum capital requirement of JD 50,000 (US \$70,000) is set for foreign investors. This requirement does not apply to participation in public shareholding companies.

There is no formal screening or host government selection process for foreign investment. However, investors in large projects find that the informal approval of local and central government officials helps to ensure governmental cooperation in project implementation.

The law stipulates that expropriation is prohibited unless deemed in the public interest. It provides for fair compensation to the investor in convertible currency.

The government plans to accelerate and broaden the privatization program. As regards the power sector, the Jordanian Government has created separate generation, transmission, and distribution companies (CEGCO, IDCECO and EDCO) and has established an effective regulatory body for the industry. A new electricity law has been passed paving the way for the privatization of the sector through a new regulatory and tariff regime.

The GOJ sold its remaining 14.3% stake of the Jordan Cement Factories Company to the social security corporation in February 2002. In 2000, the GOJ sold 40%

of Jordan Telecom shares to JITCO, an 88% France Telecom owned company. The GOJ sold an additional 10.5% of Jordan Telecom shares via an initial public offering (IPO) in October 2002. In October 2003, the GOJ sold half of its 52% stake in the Arab Potash Company to a strategic Canadian partner. The Government is committed to hold its remaining 26% in the company until the end of 2006, when it may arrange to sell the balance of its shares. The government continues to consider its options in the privatization of Royal Jordanian (RJ) Airline's operating division. The government concluded the sale of 80 percent of RJ's aircraft maintenance division. RJ's engine overhaul facility is also for sale. In addition, the government is conducting a study of the Jordan Civil Aviation Authority with the goal of privatizing all but its core regulatory functions. Non-core areas likely to be sold off or put under private management in the medium term include all three civil airports, an aviation services training school, and an airport hotel.

Jordan has also announced that it intends to sell a majority stake as well as management control in the Jordan Phosphate Mines Company. A management contract for the handling of the container terminal in the port of Aqaba was signed with a Danish company in March 2004 and a tender for a 25-year contract is under review. An international consortium has arranged to develop a 400 km gas-pipeline from Aqaba to Syria on a BOO basis, to be completed in early 2006. The postal service has been transformed into a public shareholding company pending its eventual privatization. The Government expects to conclude major privatization deals in 2006 in the electricity generation and distribution sectors and the Phosphate company. The government also expects to sell its remaining shares in Jordan Telecom (about 42% of the company) in early 2006, and other investments managed by Jordan Investment Corporation.

While these efforts have combined to make Jordan's investment climate more welcoming, some large U.S. investors have reported "hidden costs" when investing in Jordan due to bureaucracy, red tape, vague regulations and conflicting jurisdictions. As they would in other countries, investors should execute due diligence in exploring investment opportunities and concluding purchases.

Conversion and Transfer Policies

Jordan's liberal foreign exchange law entitles foreign investors to remit abroad, in a fully convertible foreign currency, foreign capital invested, including all returns, profits, and proceeds arising from the liquidation of investment projects. Non-Jordanian administrative and technical employees are permitted to transfer their salaries and compensation abroad.

The Jordanian Dinar is fully convertible for all commercial and capital transactions. The JD is pegged to the U.S. dollar at an exchange rate of approximately 1 JD to US \$1.41.

Licensed money-exchangers are supervised by the central bank, but are free to set their own exchange rates depending on market conditions. Unlike banks, they do not pay the central bank commissions for exchange transactions, giving them a competitive edge over banks.

Other foreign exchange regulations include:

- Non-residents are allowed to open bank accounts in foreign currencies. These accounts are exempted from all transfer-related commission fees charged by the central bank.

- Banks are permitted to purchase an unlimited amount of foreign currency from their clients in exchange for JD on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward deal basis for the purpose of covering the value of imports.

- There are no restrictions on the amount of foreign currency that residents may hold in bank accounts, and there are no ceilings on the amount residents are permitted to transfer abroad.

- Banks do not require prior central bank approval for the transfer of funds, including investment-related transfers, although stricter measures are now in place to monitor bank wire transfers to boost Jordan's ability to participate in the global fight against illicit financial flows.

Expropriation and Compensation

There are no known cases where the government has expropriated the private property of an investor.

Dispute Settlement

Under Jordanian law, foreign investors may seek third party arbitration or an internationally recognized settlement of disputes. The Jordanian government recognizes decisions issued by the International Center for the Settlement of Investment Disputes (ICSID), of which it is a member. Jordan is also a member of the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards. In cases where the government (or its agencies) is a party to the dispute, it generally prefers settlement in local courts if an out-of-court settlement is not forthcoming. Jordan abides by WTO dispute settlement mechanisms. Dispute settlement mechanisms under the FTA are consistent with WTO commitments.

Article IX of the Bilateral Investment Treaty (BIT), establishes procedures for dispute settlement.

A dispute between a U.S. investor and the Jordanian government that was brought before an ICSID tribunal in 2002 was settled in May 2004.

In another instance, a foreign company investing in a joint venture with a state-owned Jordanian corporation found that the management contract for that Jordanian SOE partner had been given to a rival without prior consultation. With substantial support from the Embassy, the dispute was resolved to the satisfaction of the foreign investor.

Jordan's Legal System

In the legislative process, draft laws prepared by various ministries are then submitted to the cabinet and subsequently presented to the lower house of parliament for consideration. Once passed by the lower house, draft laws must be approved by the Senate. All laws require royal assent and must be published in the Official Gazette before they come into force.

According to the constitution, the judiciary is independent of other branches of the government. In some cases, it is susceptible to political pressure and interference by the executive.

The constitution classifies the judiciary into three categories: religious courts, special courts (e.g., Military court, Customs court, Income Tax Court) and regular courts. Verdicts rendered by the Jordanian judiciary are based on decisions made by a judge or a panel of judges.

General legal provisions are incorporated within the Civil Code, unless a separate, more specialized law governs the nature of the specific relationship.

Commercial activities are governed by the Commercial Code. Business contracts, such as commercial agency and commission agency contracts, are subject to the code's provisions. Financial papers such as checks and promissory notes are also dealt with under the Commercial Code.

Various provisions in the Commercial Code, the Civil Code, and the Companies Law govern bankruptcy and insolvency. A temporary Bankruptcy Law came into force in 2002.

Performance Requirements/Incentives

Following Jordan's accession to the WTO, the Trade-Related Investment Measures (TRIMS) agreement came into force. Investment and commercial laws do not contain any trade-restrictive investment measures and have generally been in compliance with TRIMS. Investment incentives take the form of income tax and custom-duties exemptions, which are granted to both Jordanian and foreign investors.

The country is divided into three development areas: Zones A, B, and C. Investments in Zone C, the least developed areas of Jordan, receive the highest level of exemptions. However, all agricultural, maritime transport, and railway investments are classified as Zone C,

irrespective of location. Hotel and tourism-related projects set up along the Dead Sea coastal area, leisure and recreational compounds, and convention and exhibition centers receive Zone A designations. Qualifying industrial zones (QIZs) are zoned according to their geographical location, unless they apply for an exemption. The three-zone classification scheme does not apply to nature reserves and environmental protection areas, which are granted special consideration.

Specifically, the Investment Promotion Law allows:

- Exemptions from income and social services taxes of up to ten years for projects approved by the Investment Promotion Committee (which includes senior officials from the Ministry of Industry and Trade, Income Tax Department, Customs Department, the private sector, and the Director General of the Jordan Investment Board), in accordance with the designated zone scheme:

- 25 percent tax exemption for Zone A
- 50 percent tax exemptions for Zone B
- 75 percent tax exemptions for Zone C

An additional year of these tax exemptions is granted to projects each time they undergo expansion, modernization, or development resulting in a 25 percent increase in their production capacity for a maximum of four years.

- Capital goods are exempt from duties and taxes if delivered within three years from the date of the investment promotion committee's approval. The committee may extend the three-year period if necessary.

- Imported spare parts related to a specific project are exempt from duties and taxes, provided that their value does not exceed 15 percent of the value of fixed assets requiring spare parts. They should be imported within ten years from a project's commencement date.

- Capital goods used for expansion and modernization of a project are exempt from duties and taxes, provided they result in at least a 25 percent increase in production capacity.

- Hotel and hospital projects receive exemptions from duties and taxes on furniture and supply purchases, which are required for modernization and renewal once every seven years.

- Increases in the value of imported capital goods are exempt from duties and taxes if the increases result from higher freight charges or changes in the exchange rate.

- In addition to the Investment Promotion Law, additional exemptions are granted to investments within industrial estates designated as Special Industrial Zones.

- Industrial projects are granted exemptions on income and social services taxes for a two-year period. Established industrial facilities that relocate to an industrial estate also receive this benefit.

- Industrial projects are granted property tax exemptions throughout their lifetime.

- Industrial projects are granted partial or full exemptions from most municipality and planning fees.

To promote exports, all exporters are granted the following incentives:

- Net profits generated from most export revenues are fully exempt from income tax. Exceptions include fertilizer, phosphate, and potash exports, in addition to exports governed by specific trade protocols and foreign debt repayment schemes. Under the WTO, the exemption is extended until the end of 2005 and is expected to be extended again, on annual bases, until the end of 2007.

- Foreign inputs used in the production of exports are exempt from custom duties and all additional import fees on a reimbursable or drawback basis. In addition, Qualifying Industrial Zone investments may be eligible for further incentives and exemptions. For example, in 2005 the government lowered banks' guarantees and guest workers' work fees in all QIZ factories. Recommendations are being considered to ease and speed up the transport of QIZ production input and output materials.

Foreign investors can bid for government-commissioned research and development programs that are slated for international or mixed bidders. Otherwise, they have to find a Jordanian partner. This qualification will be dropped if Jordan accedes to the WTO'S Government Procurement Agreement (GPA), for which it submitted an entities offer in 2004.

Investors have been hampered by a performance requirement related to imports -- the so-called DAMAN program -- a product conformity standards measure that has been enforced through pre-shipment inspections. The program has not been implemented in a transparent manner and appears to be inconsistent with WTO principles of national treatment and non-discrimination. The government in 2005 exempted from DAMAN procedures certain imports from specified "low risk" countries (including those from the United States) and was looking into means to reduce further the problems with DAMAN at the end of the year.

Right to Private Ownership and Establishment

In general, the laws on investment and property ownership permit domestic and foreign entities to establish and own businesses and engage in remunerative activities. However, activities relevant to military and national security are subject to different provisions and procedures.

Foreign companies may open representative (regional) and branch offices; branch offices may carry out full business activities, while regional offices may serve as liaisons between head offices and Jordanian or regional clients. The Ministry of Industry and Trade manages the government's policy on setting up regional and branch offices.

No foreign firm may import goods without appointing an agent registered in Jordan; the agent may be a branch office or a wholly owned subsidiary of the foreign firm, notwithstanding the limitations on foreign ownership in certain sectors. The agent's connection to the foreign company must be direct, without a sub-agent or intermediary. A Commercial Agents and Intermediaries Law governs the contract between foreign firms and commercial agents. It clearly delineates the distinction between commercial agency and distribution contracts relationships. Private foreign entities, whether licensed under sole foreign ownership or as a joint venture, compete on an equal basis with local companies.

Foreign nationals and firms are permitted to own or lease property in Jordan for investment purposes and personal use, provided that their home country permits reciprocal property ownership rights for Jordanians; property intended for investment should be developed within five years from the date of approval. Depending on the size and location of the property, the Lands and Surveys Department, its Director General, the Minister of Finance or the Cabinet are the authorities that approve foreign ownership of land and property. Foreign companies holding a majority share in a Jordanian company, as well as wholly owned subsidiaries, automatically obtain national treatment with respect to ownership of land where the company's business objectives require (e.g., agriculture), or allow for, ownership of land or real estate.

Protection of Property Rights

Interest in property (moveable and real) is recognized, enforced and recorded through reliable legal processes. The legal system facilitates and protects the acquisition and disposition of all property rights.

Prior to its accession to the WTO, Jordan passed several new laws to improve protection of intellectual property rights (IPR), patents, copyrights, and trademarks. TRIPS (Trade Related Aspects of Intellectual Property Rights)-consistent laws now protect trade secrets, plant varieties and semiconductor chip designs. The law requires registration of copyrights, patents and trademarks. Copyrights must be registered at the National Library, part of the Ministry of Culture. Patents must be registered with the Registrar of Patents and trademarks at the Ministry of Industry and Trade. Jordan has signed the Patent Cooperation Treaty and to the protocol relating to the Madrid Agreement Concerning the Registration of Marks but ratification was still pending at the end of 2005. Jordan's pharmaceutical industry generally abides by the new TRIPS-consistent Patent Law. In addition, in signing the FTA, Jordan

committed to even stronger enforcement of IPR, particularly in the pharmaceutical sector. It acceded to the World Intellectual Property Organization (WIPO) treaties on copyrights (WCT) and performances and phonographs (WPPT). Jordanian firms are now seeking joint ventures and licensing agreements with multinational partners.

Jordan's record on IPR enforcement has improved. However, effective enforcement mechanisms and legal procedures are still not completed and are in need of further refinement. As a result, the government's record on IPR protection remains mixed. A sizeable portion of videos and software sold in the marketplace continues to be pirated. Enforcement action against audio/video and software piracy is growing in quantity and improving in its targeting capability, but successful prosecution of piracy cases remains spotty. Government committees convened in 2005 are examining means to provide more comprehensive protections to IPR, including through more stringent enforcement of existing laws.

Transparency of the Regulatory System

The government is slowly implementing policies to improve competition and foster transparency. These reforms aim to change an existing system that can be influenced greatly by family affiliations and business ties. Although in many instances bureaucratic procedures have been streamlined, red tape and opaque procedures still present problems for foreign and domestic investors. The arbitrary application of customs, tax, labor, health and other laws or regulations, particularly at the level of local government, have impeded investment.

In 2005, the government continued its aggressive strategy to promote e-government. The government has pledged to make its services, regulations, and procurement procedures more accessible and transparent via e-government.

Efficient Capital Markets and Portfolio Investment

Jordan's capital market capitalization reached US \$41 billion at the end of Nov 2005 (around 356 percent of GDP), breaking the record since the exchange was established in 1978.

The Amman Financial Market (AFM) is divided among the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE) and the Securities Depository Center (SDC). The SDC is the custodian for all transaction contracts, clearing and settlement. The JSC was established as the government's supervisory and monitoring agency for the capital market in Jordan. The government passed the Securities Law in 2002, which brought it more in line with international best practices.

There are 47 brokerage firms and 200 listed public-shareholding companies on the ASE that cover the First and Second markets. At the end of November 2005, shares owned by non-Jordanians represented 45.3 percent of the ASE market capitalization, where Arab investors own 36.4 percent and other foreigners own 8.9 percent.

The ASE also suffers from intermittent liquidity problems, which have ensured that the bourse remains prone to speculative movements. Structural problems (such as lack of transparency, corporate governance, and the dearth of mutual funds) have been exacerbated by the insufficiency of institutional buying and wavering investor confidence. The Central Bank, on behalf of the Ministry of Finance, conducts regular auctions of six-month treasury bills and three-year treasury bonds. Treasury bonds and bills and development bonds (equivalent to Treasury Bonds) are listed on the ASE. . Trading volume for the first 11 month of 2005 was JD 2.2 million (US \$3.1 million). New issues for the same period reached JD 614 million (US \$866 million). The Ministry of Finance has been issuing bonds of differing maturities since 2002. The Central Bank also introduced a primary dealer plan designed to increase liquidity in the secondary market, though the program has to this point been unsuccessful in achieving this goal. A Public Debt Law allows for an increase in the volume of bond and bill issuance by the Treasury.

Government bond and bill ownership is registered in book-entry form at the Central Bank. Commercial banks maintain sub-registries. Foreign investors are welcome

to participate in auctions and to purchase government securities.

The corporate bond market remains under-developed, and continues to be over-shadowed by traditional direct lending. One reason is rigid interest rates; another relates to the absence of a secondary market for such issues. Increasingly, however, some banks have started introducing new products and corporate bond issues. New bond issues for the first 11 months of 2005 totaled JD 50.6 million (US \$70.4 million), compared to JD 173 million (US \$244 million) in 2004.

One flaw in the credit market is the lack of long-term credit, owing to the short-term nature of banks' deposit structure. On average, regular corporate loans are extended for periods of 1-3 years, while syndicated loans may reach up to 7 years. Long-term financing had been stymied by the Ottoman-era law stipulating that total interest payments over the life of a bond could not be greater than the principal amount, thus effectively impeding the development of longer-maturity fixed-income instruments. However, the Public Debt law scrapped this requirement, allowing for longer maturities and increased volumes.

The absence of long-term credit discourages projects requiring long development periods. As a consequence, large investment projects often resort to foreign markets to raise capital.

The Central Bank of Jordan (CBJ) is the banking system's regulatory authority. Jordanian banks have recovered from an economic slow-down of the late-1990s, and in 2005 the CBJ estimated that non-performing loans totaled less than 20 percent of all loans.

A banking law, which aims at improving the industry's efficiency, came into force in 2000. The law protects depositors' interests, diminishes money market risk, guards against the concentration of lending, and includes articles on new banking practices (e-commerce and e-banking) and money laundering. The CBJ has issued a number of circulars throughout 2003-2005 to implement money-laundering regulations that are consistent with the recommendations of the OECD's Financial Action Task Force, and has recently drafted a law to codify these regulations. Toward this end, the CBJ has established a Financial Intelligence Unit (FIU). It also allows market forces greater influence to encourage the development of financial markets. In addition, the CBJ set up a separate and independent Deposit Insurance Corporation in late 2000 that ensures deposits of up to JD 10,000 (US \$14,000). The corporation also acts as the liquidator of banks as directed by the CBJ.

The CBJ established a credit bureau for bounced checks in 2001. The bureau requires banks to report on a timely basis the names of account holders with bounced checks. Following a third report of a bounced check, the CBJ circulates the names of the account holders to all banks with instructions to withhold check-books and any other facilities for a certain period of time. As of the end of 2004, the Arab Bank and the Housing Bank were the two largest banks in Jordan, with total assets of US \$27.34 Billion and US \$3.53 billion, respectively. The difference between their asset bases owes to the vast difference in their scope of operations; the Arab Bank has a worldwide presence, while the Housing Bank's prime focus is the local market. Although the Central Bank distinguishes between "investment banks" and "commercial banks", there are no significant differences in the operations of the two.

Banks offer loans, discounted bills, and overdraft facilities. Investment banks are not permitted to extend overdraft facilities. The Central Bank permits banks to extend loans and credit facilities in foreign currency. In such cases, it requires debt repayment to be in the denominated foreign currency.

A number of banks have established mutual funds. New capital instruments such as commercial paper and convertible bonds are under consideration. In addition to long-term instruments, securitization, short-selling, and treasury stocks are being introduced in some banks.

Two individuals were convicted and sentenced to long jail terms for the embezzlement of around US \$120 million in February 2002, which involved some prominent Jordanians and loans drawn from three banks. The Central Bank took adequate action to reassure depositors and restore calm to the market. In addition, the sector did not suffer any significant shocks during the 2003 war in Iraq either due to significant exposure

to trade with Iraq or to runs on bank deposits at the outbreak of the conflict. As a result, the health of the banking system and its resilience are not in question. Iraqi Government assets in Jordanian banks were frozen in early 2003 and US \$250 million was returned to the Development Fund for Iraq.

With respect to ownership and participation in the major economic sectors in Jordan, there is no apparent discrimination against foreign participation. In fact, many Jordanian businesses seek foreign partners, which are perceived as the key to increased competitiveness and easier entry into international markets.

There are a number of internationally recognized accounting and auditing firms in Jordan. The government's accounting and auditing regulations are consistent with international standards and are internationally recognized.

Political Violence -----

Some incidents of political violence and terrorist activities have occurred in Jordan, most recently the November 9, 2005, hotel bombings in Amman and the August rocket attack in Aqaba. The hotel bombings targeted foreign business interests, but the attacks were limited to the hotel industry. Other industries with foreign business interests have remained unaffected by political violence. While Jordan enjoys political stability, events in the region, particularly in the West Bank and Gaza or Iraq, can trigger small demonstrations of anti-U.S. hostility.

The government of Jordan is proactive in maintaining public security, containing demonstrations and preventing terrorist attacks, and has increased its efforts since the November 9 attacks. The potential for politically motivated violence, however, remains. Visitors should consult current State Department public announcements.

Corruption -----

Corruption is a crime in Jordan. The General Intelligence Directorate (GID) has an anti-corruption department that is responsible for combating bribery, extortion, and other similar crimes. Attempts to establish similar, transparent entities outside the security service so far have not been successful. A draft financial disclosure law requiring public office holders and specified government officials to declare their assets is under consideration in parliament.

Influence peddling and a lack of transparency have been alleged in government procurement and dispute settlement. "Wasta", the use of family, business, and other personal connections to advance personal business interests, is endemic.

Bilateral Trade/Investment Agreements -----

A Free Trade Agreement (FTA) between the U.S. and Jordan entered into force in December 2001. The agreement mandates that a free trade area between the two countries will be attained following a gradual phasing out of import duties and other trade barriers over ten years. The agreement incorporates labor, environmental, and intellectual property rights provisions.

A Bilateral Investment Treaty between Jordan and the United States entered into force in 2003. The agreement provides reciprocal protection of Jordanian and U.S. individual and corporate investments.

Jordan is a member of a pan-Arab accord on facilitating the movement of capital between Arab countries. Countries that have signed the accord include Jordan, UAE, Bahrain, Tunisia, Saudi Arabia, Iraq, Oman, Kuwait, Libya, Egypt, Morocco, Qatar, Syria, and Lebanon.

An economic association agreement between Jordan and the European Union that establishes free trade over a twelve-year period entered into force in 2002. This agreement calls for the free movement of capital, as well as cooperation on development and political issues.

In 2004, Jordan signed a Free Trade Agreement with Singapore. In the same year, Jordan completed the Agadir trade agreement with Egypt, Morocco, and Tunisia

and upgraded its trade agreement with Israel to take advantage of accumulation of content provisions in the EU's Pan-Euro-Mediterranean trade rules of origin.

OPIC and Other Investment Insurance Programs

Investments in Jordan are eligible for Overseas Private Investment Corporation (OPIC) insurance and private financing.

Jordan is also a member of the Multilateral Investment Guarantee Agency (MIGA), a World Bank Agency, which guarantees investment against non-commercial risks such as civil war, nationalization, policy changes, etc. The program covers investments in Jordan irrespective of the investor's nationality, in addition to covering Jordanian investments abroad.

Several European countries have official debt-for-equity swap programs that are open to investors of all nationalities.

Labor

The rate of population growth (births minus deaths and factoring in migration) is about 2.5 percent a year. 50% of the population is under the age of 20. In general, the labor force is well educated. Literacy rates approach 95.2 percent for men and 86.7 percent for women. Jordan has a labor force of 1.47 million and an unemployment rate of approximately 13.4 percent.

The officially estimated 218,000 foreign laborers in Jordan work primarily in unskilled sectors, such as construction, agriculture, and domestic service. They constitute around 15 percent of the labor force. The Ministry of Labor regulates foreign worker licensing, licensing fees, prohibited sectors, and employer liability. Among its responsibilities, the ministry approves the hiring of professional foreign workers by private businesses. Non-citizens are not permitted by law to join unions, though the Ministry of Industry and Trade maintains that such workers enjoy any benefits and protections that unions obtain.

Labor unions serve primarily as intermediaries between workers and the Ministry of Labor, and may engage in collective bargaining on behalf of workers. In order to strike, workers must obtain permission from the government. Currently, there are 17 recognized unions in Jordan, all members of the General Federation of Jordanian Trade Unions. Estimates put union membership at 10 percent of the labor force. In addition to the 17 unions, there are numerous professional associations active in Jordan, many of which have mandatory membership. While these associations occasionally take on characteristics of traditional unions, they are primarily political bodies. About 30 percent of the total labor force, including government service, belongs to either a union or a professional association.

Article 28 of the Labor Law specifies the conditions under which an employer can discharge a worker without notice. Article 31 allows employers to lay off employees if economic or technical circumstances necessitate reorganization. The law does not require employers to include retirement plans in their employment package. However, if the employer agreed to provide retirement benefits when the worker was contracted, the employer must fulfill his/her commitment. The Social Security Law stipulates that if the employer has more than five employees, they must be enrolled in the social security system. The Labor Law also addresses worker compensation and outlines compensatory categories for work-related injuries. Article 67 provides unpaid maternity leave for a maximum of one year for mothers working in firms employing 10 or more workers, and article 70 requires full pay for 10 weeks of maternity leave. The law provides for 14 calendar days of annual leave for employees during the first five years with the employer, and 21 calendar days after five years of successive service. This law places Jordan in compliance with international and Arab labor agreements.

Foreign Trade Zones/Free Trade Zones

The Zarga Free Zone is Jordan's major free zone area. Other areas include the Sahab Industrial Estate Free Zone, Queen Alia International Airport Free Zone, and the Gateway Qualifying Industrial Zone.

In May 2001, the government converted the Aqaba port and surrounding area into a special economic zone (SEZ) with streamlined bureaucracy, lower taxes, and facilitated customs handling.

Both Jordanian and foreign investors are permitted to invest with few restrictions in trade, services, and industrial projects in free zones. Industrial projects must fulfill one of the following conditions:

- New industries which depend on advanced technology;
- Industries requiring raw material and/or locally manufactured parts that are locally available;
- Industries that complement domestic industries;
- Industries that enhance labor skills and promote technical know-how;
- Industries providing consumer goods, and that contribute to reducing market dependency on imported goods.

The following incentives are granted to investors in the designated free zones:

- Profits are exempt from income and social services taxes for a period of twelve years, with the exception of profits generated from storage services that involve goods released to the domestic market.
- Salaries and allowances payable TO non-Jordanian employees are exempt from income and social services taxes.
- Goods imported to and/or exported from free zones are exempt from import taxes and customs duties, with the exception of goods released to the domestic market.
- Industrial goods manufactured in free zones enjoy partial customs duties exemption once released to the domestic market, depending on the proportion of the value of local inputs and locally incurred production costs.
- Construction projects are exempt from licensing fees and urban property taxes.
- Free transfer of capital invested in free zones, including profits.

Qualifying Industrial Zones (QIZs)

Approved goods produced in a "Qualifying Industrial Zone" (QIZ) can be imported into the United States free of duty if they involve economic cooperation between Jordan and Israel, and if 35 percent of the product's content comes from the QIZ, Israel, and/or the West Bank/Gaza. This makes investment in a QIZ particularly attractive to industries whose products are assessed with high tariffs when they are imported into the U.S. There are currently 13 QIZs, three of which are publicly owned; the remaining ten are privately owned. As of December 2005, the bulk of QIZ exporters have been concentrating on garment exports. Since 1999, the QIZs have attracted US \$450 million in capital investments, generated over US \$3 billion in exports to the U.S., and created over 45,000 new jobs.

Foreign Direct Investment Statistics

Official statistics on foreign direct investment (FDI) are not publicly available.

The UNCTAD's World Investment Report 2005 estimates FDI inflows into Jordan at US \$64 million, \$424 million and \$620 million for 2002, 2003 and 2004, respectively. The Jordan Investment Board approved foreign investment projects worth about US \$118 million, \$135 million and \$381 million for the years 2003, 2004 and 2005, respectively. The following statistics should be interpreted as indicating trends rather than exact figures. Note that figures may differ from previous years due to revisions in the data series.

Total Registered Capital by Economic Sector
(USD, at year end)

	2003	2004	
2005			
Sector	USD	USD	USD
Industry	1,248,747,462	1,364,111,021	

1,457,367,358	28.5%	27.2%
27.7%		
Trade	1,893,711,966	2,027,428,883
2,173,085,245	20.8%	21.5%
22.6%		
Agriculture	132,158,940	139,435,950
159,058,638	17.6%	20.4%
25.0%		
Construction	319,270,457	330,153,894
361,074,861	2.4%	2.4%
4.6%		
Services	1,986,785,396	2,261,465,725
2,864,875,764	43.5%	39.3%
38.7%		
Total	5,580,674,222	6,122,595,475
7,015,461,867	29.5%	28.3%
29.4%		

Annual Registered Capital Inflows by Economic Sector
(USD)

Sector	2003	2004	2005
	USD	USD	USD
Industry	28,287,210	115,363,559	
93,256,337			
foreign	32.5%	12.9%	
35.4%			
Trade	246,085,160	133,716,917	
145,656,361			
foreign	63.8%	32.1%	
37.9%			
Agriculture	2,453,517	7,277,010	
19,622,688			
foreign	29.0%	70.1%	
58.0%			
Construction	9,507,489	10,883,438	
30,920,967			
foreign	1.9%	2.3%	
27.5%			
Services	43,853,779	274,680,329	
603,410,039			
foreign	16.9%	8.4%	
36.8%			
Total	330,187,155	541,921,253	
892,866,392			
foreign	52.8%	15.9%	
37.0%			

(* The Percentage Figure Reflects the Size of Foreign Capital to Total Capital)

(Source: Ministry of Industry and Trade)

According to these measurements, FDI Stock and FDI Inflows as a percentage of GDP at current market prices are:

	2003	2004	2005
(Projected)			
Nominal GDP (JD million)	7,203.6	8,164.4	
9,062.5			
Nominal GDP (USD million)	10,160.2	11,515.4	
12,782.1			
FDI Stock	16.2%	15.1%	
16.2%			
FDI Inflows	2.3%	3.3%	
5.0%			

Total Foreign Registered Capital by Country of Origin
(USD)

	2003	2004
2005		
Country of Origin		
1 Jordanian	3,919,751,286	4,372,302,874
4,927,108,044		
2 Saudi	297,849,168	305,292,581

413,760,056		
3 Iraqi	236,166,142	268,521,749
383,145,238		
4 Egyptian	214,492,076	218,804,488
230,711,540		
5 Kuwaiti	147,717,267	157,184,629
173,757,265		
6 UAE	144,050,071	144,399,470
168,489,738		
7 Syrian	152,021,113	156,062,016
166,311,381		
8 Libyan	61,393,178	61,534,221
61,745,787		
9 British	45,873,961	50,087,958
57,742,401		
10 Qatari	47,561,614	47,716,762
48,069,371		
11 American	31,295,994	34,079,491
38,425,047		
12 Indian	35,687,764	36,396,509
36,925,423		
13 Lebanese	31,027,168	32,630,546
35,127,020		
14 Palestinian	18,297,049	19,389,010
25,554,877		
15 Sudanese	24,375,811	24,728,420
25,095,134		
16 Japanese	14,221,439	16,023,977
16,063,470		
17 Chinese	8,733,429	11,356,137
16,045,853		
Total	5,568,621,886	6,110,711,186
7,003,854,453		

(Source: Ministry of Industry and Trade)

NOTE ON PREVIOUSLY LISTED DANISH FDI:

Registration statistics issued by the Ministry of Industry and Trade include all companies with the exception of publicly listed companies. The statistics on FDI differ each year because some privately held companies are subsequently listed on the Amman Stock Exchange. An important example is Jordan Telecom - France Telecom invested in Jordan Telecom through a Danish subsidiary, thus the previously reported Danish FDI is now classified as portfolio investment and not included in the above FDI statistics.

END TEXT OF INVESTMENT CLIMATE STATEMENT

HALE